



Memorandum # 42/2006

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission
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MEMORANDUM

TO: All Retirement Boards

FROM: Dana K. Mahoney, Compliance Officer

RE: Review of Disclosure Statements

DATE: October 20, 2006

PERAC has received requests to provide an update on what the Administrators and Board Members should be looking for while reviewing disclosure statements. We understand that disclosure statements can be confusing, and it may be difficult to ascertain the information that the investment managers are attempting to disclose.

PERAC is in the process of reviewing our disclosure statements, in an effort to improve the public pension fund boards' ability to understand, any and all fees associated with each investment manager, consultant and other vendors.

It is imperative, that all Administrators and Board Members be vigilant in remembering that:

- A. All disclosure statements are to be incorporated into the RFP process;
- B. All disclosure statements are to be reviewed by board members *prior* to acceptance;
- C. The Board should follow-up on any and all questions regarding the disclosure statement;
- D. A review of the disclosure statement, should include a comparison of the ADV and any other available information; and,
- E. Contact other boards that may be considering the same investment manager, consultant or vendor, to assess that information provided is consistent for all disclosure statements.

Until that process is complete, we would like to provide a step-by-step approach to review disclosure statements, in an effort to improve the Administrators and Board Members ability to best evaluate its investment managers.

Third Party Payments: Marketing

1. This question seeks to induce the disclosure of any, and all, policies/procedures for marketing payments or fees associated with the individual investment manager. These fees can be described as marketing fees, third-party marketing fees, introductory fees, or

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finder's fees. It is in the best interest of all public pension fund boards to review the individual policy/practice of each investment manager and request a detailed description or copy of written company policy on all marketing fees associated with the investment manager's investments.

2. Same as question one above, but specifically identifies Massachusetts public pension funds.
3. This question requests information as to any offers by an outside third-party to assist in marketing Massachusetts public pension funds. Each public pension fund board should be aware of any possible conflicts or improprieties concerning fees paid to outside individuals performing marketing for investment managers.
4. This question requests information regarding whether or not the manager has solicited outside marketing assistance regarding Massachusetts public pension funds. Each public pension fund board should be aware of any possible conflicts or improprieties concerning fees paid to outside individuals performing marketing for investment managers.
5. This question requests information regarding any, and all, compensation offered in any form to any individual or entity for marketing of investment managers services/products to Massachusetts public pension systems. Each public pension fund board should be aware of any possible conflicts or improprieties concerning fees paid to outside individuals performing marketing for investment managers.

Third Party Payments: Product Development

6. This question seeks to induce the disclosure of any, and all, policies/procedures for compensation in connection with the development of products/services to be marketed to pension funds. Each public pension fund board should review the individual policy/practices of each investment manager, and request a detailed description, or written company policy, on all compensation associated with product/service development associated with their investments.
7. Same as question six above, but specifically identifies Massachusetts public pension funds.
8. This question requests information as to any offers by an outside third-party for the development of products/services to be marketed to Massachusetts public pension funds. Each public pension fund board should be aware of any possible conflicts or improprieties concerning fees paid to outside individuals performing development of products/services for investment managers.
9. This question requests information regarding whether or not the manager has solicited an outside third-party for the development of products/services to be marketed to Massachusetts public pension funds. Each public pension fund board should be aware of any possible conflicts or improprieties concerning fees paid to outside individuals performing development of products/services for investment managers.

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10. This question specifically asks if the investment manager has offered compensation in any form, as regards development of products/services to be marketed to Massachusetts public pension funds.

Brokerage Practices

11. This question seeks to induce the disclosure of any, and all, policies/arrangements regarding “soft dollars”, “directed brokerage”, “commission recapture” and any other practices relating to brokerage. Each public pension fund board should review the policies/arrangements of each investment manager, and request a detailed description, or written company policy, on all compensation associated with any, and all, brokerage practices associated with their investments.
12. Same as question eleven above, but specifically identifies Massachusetts public pension funds.

Consultant Relationships

13. This question is seeking to reference any, and all, financial relationships with the public pension fund board’s consultant. If so, each public pension fund board should review these agreements closely for any conflicts of interest or improprieties.
14. This question is seeking to reference any, and all, financial relationships with any, and all, consultants. Each public pension fund board should review these agreements for any conflicts of interest or improprieties.

PERAC is committed to working with the Massachusetts Retirement Systems in an effort to protect the retirement funds. It is only through continued diligence by all facets of the public pension fund community that we can remain resolute in ensuring the future of all Massachusetts public pension funds.

If you have any questions, please do not hesitate to contact me.